

FDIC State Profile

Spring 2006

Vermont

Construction and professional and business services led Vermont employment growth in 2005.

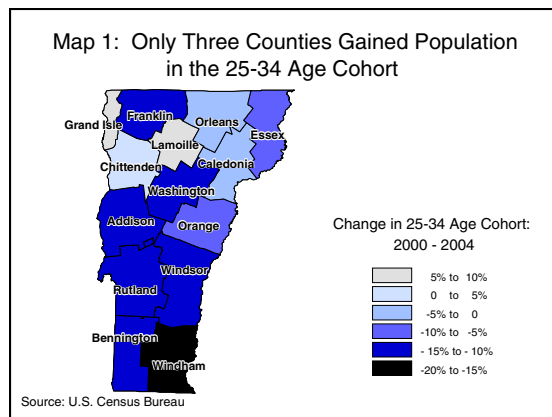
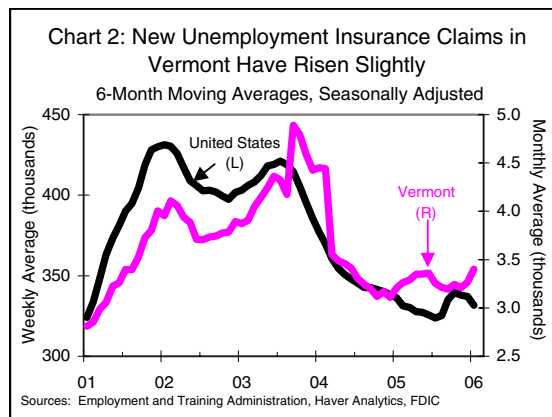
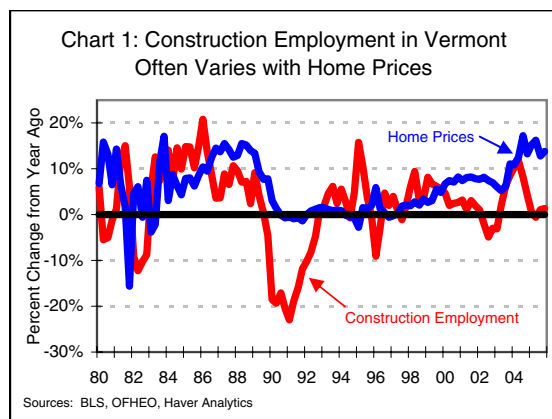
- The Vermont economy added 2,100 new jobs from fourth quarter 2004 through fourth quarter 2005, a gain of 0.7 percent. Construction employment led growth during the year, increasing by 1.2 percent, followed by professional and business services at 1.1 percent. Although accounting for 5.5 percent of jobs in the state, the construction industry contributed about twice that proportion in new jobs.
- Construction employment is highly variable over time and is significantly influenced by the behavior of housing prices (see Chart 1). This was especially the case in the 1980s and early 1990s and still appears so now. Given this relationship, the recent slowing in the rate of home price appreciation may portend some decrease in the growth in construction employment.
- Manufacturing employment posted a moderate loss of jobs at 0.9 percent. Individual industries within manufacturing had only small changes in employment levels.

Unemployment insurance claims show improvement in Vermont.

- Since reaching a peak monthly average of nearly 4,900 in 2003, initial unemployment insurance claims have declined to lower levels. As of January 2006, the six-month seasonally adjusted monthly average stood at 3,400 (see Chart 2).
- This level of new claim activity is slightly below Vermont's historical average, suggesting moderate gains in employment over the near term.

The departure of young adults has raised Vermont's median age.

- Vermont's population of 25 to 34 year olds declined by 6.2 percent, compared to a 0.5 percent gain for the U.S. as a whole from 2000 to 2004. The sharp decline in the population of young adults is contributing to the rising median age, which is the second highest in the country.¹



¹U.S. Census Bureau, 2004 American Community Survey

State Profile

Total population for the state grew at less than the U.S. average from 2000 to 2004, 1.9 percent vs. 4.1 percent.

- The 25 to 34 age cohort can set the pace for economic development of an area as they join the workforce and form households. The four southernmost counties, **Windham, Bennington, Windsor and Rutland**, all experienced double-digit declines in the population of this age group (see Map 1). Further, each of these counties had total population growth well below the average for the state, and three of the four had very slow income growth during the 2000 to 2004 period.

Vermont's insured institutions experienced an increase in earnings and margins in 2005.

- Vermont's community institutions experienced an increase in earnings through the end of 2005 (see Table 1).² The boost was due to the increase in short-term interest rates which improved asset yields. Vermont's insured institutions were able to keep interest expense under control during the year which positively impacted the net interest margin (NIM) and the bottom line. Core deposit levels remained stable, and noncore funding use is the lowest in the nation, which helped keep interest expense low. As the rate increases take hold, funding costs will likely rise and may slow or reverse the improvement in NIMs.
- Noninterest expenses as well as loan loss provision expenses increased in 2005, while delinquency ratios remained historically low during the year.

Vermont's insured institutions began to experience an increase in funding costs late in 2005 as short-term interest rates rose.

- In 2004, the Federal Reserve began a series of increases in short-term interest rates that have continued into the early part of 2006. These increases led to a flattening yield curve as the difference in short-term rates and long-term rates narrowed.³
- A flattening yield curve often causes NIM compression as banks tend to borrow short-term and lend longer-term. Vermont's insured institutions managed to finish 2005 without significant compression in NIMs or earnings as interest expense remained low. However, funding costs began to increase late in 2005 in response to higher short-term interest rates (see Chart 3). Further increases in the short-term interest rates and competition in the market for deposits may lead to further increases in

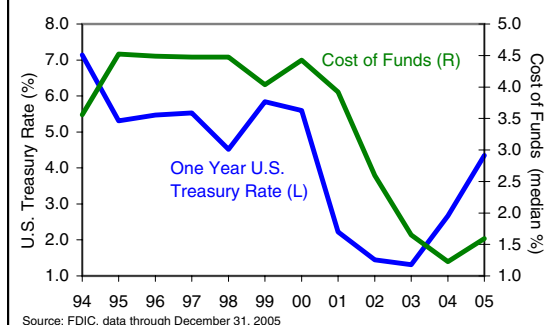
funding costs, thereby compressing margins and impacting earnings in 2006.

Table 1: Earnings are Boosted by Improved Margins as Funding Costs Remain Low

Percentage of Average Assets	Fourth Quarter		Basis Point Change
	2004	2005	
Net Interest Income	3.95	4.07	0.12
Noninterest Income	0.84	0.86	0.02
Noninterest Expense	3.44	3.48	0.04
Provision Expense	0.09	0.11	0.02
Security Gains & Losses	0.05	0.03	-0.02
Income Taxes	0.36	0.35	-0.01
Net Income (ROA)	0.96	1.02	0.06
Net Interest Margin (NIM)	4.30	4.44	0.14

Note: Aggregate data for institutions with assets <\$1 billion. Excludes specialty institutions and de novos.
Source: FDIC

Chart 3: Funding Costs Began Increasing in 2005 as Short-term Rates Rose



²Insured institutions with assets of less than \$1 billion, excluding institutions less than three years old and specialty institutions.

³FYI: An Update on Emerging Issues in Banking. What the Yield Curve Does (and Doesn't) Tell Us. February 22, 2006. <http://www.fdic.gov/bank/analytical/fyi/2006/022206fyi.html>

Vermont at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.7%	0.5%	1.1%	1.3%	-0.1%
Manufacturing (12%)	-0.6%	-0.9%	0.6%	-1.4%	-7.5%
Other (non-manufacturing) Goods-Producing (6%)	1.5%	1.0%	3.6%	7.7%	3.2%
Private Service-Producing (65%)	0.9%	0.6%	1.0%	1.4%	0.6%
Government (17%)	0.5%	0.9%	1.1%	0.7%	2.2%
Unemployment Rate (% of labor force)	3.6	3.5	3.5	3.7	4.5

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	4.2%	6.2%	5.8%	3.4%
Single-Family Home Permits	-17.8%	15.5%	-0.2%	11.4%	4.8%
Multifamily Building Permits	-44.0%	-42.8%	-15.0%	110.5%	-38.4%
Existing Home Sales	N/A	N/A	-8.3%	-2.1%	11.5%
Home Price Index	13.8%	12.8%	13.2%	13.5%	7.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.39	3.82	2.16	2.59	2.95

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	19	19	19	19	19
Total Assets (in millions)	8,295	8,145	7,866	7,866	7,453
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	0	0	0	0	0

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.08	1.17	1.46	1.46	2.01
ALLL/Total Loans (median %)	1.17	1.17	1.19	1.19	1.26
ALLL/Noncurrent Loans (median multiple)	2.93	2.56	2.38	2.38	1.88
Net Loan Losses / Total Loans (median %)	0.04	0.03	0.05	0.05	0.09

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.32	9.02	8.75	8.75	8.64
Return on Assets (median %)	0.91	0.99	1.01	0.99	0.98
Pretax Return on Assets (median %)	1.33	1.39	1.39	1.32	1.39
Net Interest Margin (median %)	4.49	4.47	4.35	4.31	4.39
Yield on Earning Assets (median %)	6.21	6.17	5.69	5.55	5.75
Cost of Funding Earning Assets (median %)	1.55	1.36	0.96	0.99	1.37
Provisions to Avg. Assets (median %)	0.08	0.09	0.11	0.09	0.11
Noninterest Income to Avg. Assets (median %)	0.89	0.74	0.79	0.72	0.89
Overhead to Avg. Assets (median %)	3.48	3.42	3.39	3.46	3.51

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	71.1	71.1	68.4	68.4	68.0
Noncore Funding to Assets (median %)	14.3	14.4	12.6	12.6	10.6
Long-term Assets to Assets (median %, call filers)	27.0	26.0	25.6	25.6	25.7
Brokered Deposits (number of institutions)	6	4	5	5	2
Brokered Deposits to Assets (median % for those above)	0.9	1.0	0.6	0.6	0.1

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	68.0	74.4	77.6	77.6	66.8
Commercial Real Estate	237.2	225.7	242.4	242.4	203.1
<i>Construction & Development</i>	37.9	35.1	26.8	26.8	19.6
<i>Multifamily Residential Real Estate</i>	12.4	12.8	13.4	13.4	14.6
<i>Nonresidential Real Estate</i>	172.8	174.1	185.2	185.2	170.2
Residential Real Estate	316.1	326.4	326.1	326.1	346.3
Consumer	40.8	40.0	39.5	39.5	42.7
Agriculture	5.7	4.5	5.7	5.7	6.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Burlington-South Burlington, VT	10	3,511	< \$250 million	11 (57.9%)
			\$250 million to \$1 billion	6 (31.6%)
			\$1 billion to \$10 billion	2 (10.5%)
			> \$10 billion	0 (0%)